

## Open Season Begins for Thrift Plans Created by FERS

Many federal employees will begin making a choice this month on whether to participate in the new thrift savings plan.

The investment options available through the new tax-deferred savings program, also known as a 401(k) plan, are illustrated in a 13-page booklet now being distributed governmentwide.

"The Thrift Savings Plan For Government Employees" is the first publication of the independent agency created by Congress last year to administer the thrift plan.

This is the first of two open seasons this year for enrollment in the thrift plan. Both will last 2½ months.

The Federal Retirement Thrift Investment Board missed its initial start-up date of Jan. 1, partly because the White House delayed appointing the five-member board. Any savings decision a federal employee makes will not become effective until the first pay period in April, but there are special "catch-up" benefits provided for participants.

Although the innovative thrift fund was established as part of the Federal Employees Retirement System, employees sticking with the old Civil Service Retirement System may also participate in the savings fund. The government contributions, however, are available only to FERS enrollees.

The thrift plan obligates the government to contribute 1 percent of pay into each employee's retirement account. Employees may contribute up to 10 percent

of pay, with full government matching on the first 3 percent and half matching on the next 2 percent.

Francis Cavanaugh, executive director of the thrift investment board, wrote in the booklet's introduction that the new fund will "provide federal employees the same savings and tax benefits that many private corporations have been offering to their employees in recent years."

"I have been a federal employee for over 32 years, and I believe the Thrift Savings Plan is one of the best financial benefits ever offered to federal employees. I plan to take advantage of it myself. I hope you will too," Cavanaugh wrote in his personal message to employees.

"Like Ben Franklin, our ancestors understood that preparing for tomorrow's security means saving today," the brochure says. "But in modern times, it hasn't always been that easy to save money regularly. Your new Thrift Savings Plan changes that... and makes saving more attractive than ever before."

But some congressional staffers involved with the creation of the savings fund are concerned that examples used in the booklet overstate how much an employee might gain.

"They're making extravagant claims," said a staffer on the House Ways and Means Committee.

She referred to a section called "Watching Your Money Grow." The example assumes that an employee earns \$26,000, elects to save 5 percent of basic pay, re-

ceives no future salary increases, and is eligible for government contributions.

The booklet shows growth projections for three sample rates of return: 4 percent, 7 percent and 10 percent. According to the graph used in that section, an employee could be a millionaire after 40 years based on a 10 percent rate of return.

"The 10 percent rate of return is ridiculous... it's the lure of quick easy money," the staffer said. The Social Security Administration's moderate set of assumptions on long-term real investment growth is 2.1 percent, a figure used by the Congressional Research Service in its calculations on the thrift plan.

Sort Inc., a private Virginia-based consulting group on FERS, assumes the thrift plan investments will earn interest at a growth rate of 4 percent annually.

There are non-discriminatory rules for the 401(k) plans to restrict higher-income employees from receiving a large portion of the tax benefits by tying their contributions in with the investments of the lower earners, the Ways and Means staffer said.

The law says employees earning \$50,000 or above can contribute no more than 2 percentage points above what is contributed by those earning less than \$50,000. The automatic government contribution of 1 percent of basic pay into each FERS thrift plan participant's account is also considered a method to encourage lower-wage employees to invest.

—Susan Kellam

## New Health Regulations To Benefit Retirees

The Office of Personnel Management has implemented new regulations that will give federal retirees more choice in health insurance coverage.

Under the new rules, which take effect Feb. 23, retirees who become eligible for Medicare immediately will be able to choose among the health insurance options offered under the Federal Employees Health Benefits Program.

Any future changes in coverage would have to be made during regular open season.

In the past, Medicare eligibles were allowed only to change from high-option to low-option coverage. OPM officials said the new policy was designed to give federal retirees more flexibility.

## In Brief

grams, the president is now taking the next logical and effective step — placing all federal drug efforts into one Cabinet-level board for maximum efficiency in developing strategies, policy, new programs and the most effective use of funds," Meese said in a prepared statement.

He also said the reorganization "formally recognizes the equal priority of the supply- and demand-side approaches."

The Secretaries of State, Defense, Treasury, Transportation, Education, Labor, Interior, Agriculture, Housing

The controversy began in early November, when Lopez-Munoz was suspended from her position after asking President Reagan a question at a news conference.

Officials at Voice of America and USIA said at the time that there was a



Shortly after, she says, she was suspended from her job and reassigned to another branch of USIA.

## Union Protests Move Of Agency to SBA

The union representing employees of the Commerce Department's Minority Business Development Agency has announced its strong opposition to a 1988 budget proposal to transfer the agency to the Small Business Administration.

Under the administration's proposal, 140 of the agency's 240 employees would be transferred to Commerce Oct. 1. It is unclear what would happen to the remaining 100 workers.

Local 2008 president Herman Rivera said the budget proposal would have "devastating consequences for MBDA" and federal efforts to assist minority American-owned businesses.